

REBUTTAL TESTIMONY

OF THE

National Association of Presort Mailers

BEFORE THE

PRESIDENT'S COMMISSION

ON THE

UNITED STATES POSTAL SERVICE

MARCH 13, 2003

REBUTTAL TESTIMONY
OF
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EXECUTIVE DIRECTOR
ON BEHALF OF THE
NATIONAL ASSOCIATION OF PRESORT MAILERS
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As stated in our initial comments, the National Association of Presort Mailers ("NAPM") is a trade association of firms concerned with postal worksharing programs, especially discounts for presorted and automated mail.¹

NAPM wishes to rebut two assertions made by the American Postal Workers Union (APWU) and Kathryn Kobe about presort and automation workshare discounts: (1) that they are excessive and cause the Postal Service to lose contribution on each letter that receives a discount; and (2) that they subsidize large business mailers at the expense of individuals and small businesses.²

The APWU has often made these claims but neither assertion is true. The assertions regarding worksharing discounts in the Comments of both Ms. Kobe and the APWU simply regurgitate the testimony and arguments the APWU presented to the Postal Rate Commission ("PRC") in R2001-1 when it opposed the settlement agreement reached by the overwhelming

¹ Testimony of Joel T. Thomas, Executive Director, on behalf of the National Association of Presort Mailers before the President's Commission on the United States Postal Service (February 12, 2003) (hereafter NAPM Comments).

² Testimony of the American Postal Workers Union before the President's Commission on the United States Postal Service (February 12, 2003) (hereafter APWU Comments) and Testimony of Kathryn Kobe before the President's Commission on the United States Postal Service (February 12, 2003) (hereafter Kobe Comments). Ms. Kobe's assertions concerning worksharing that are similar to those of the APWU. Ms. Kobe is, in addition, the Chief Economist, Joel Popkin and Company. Though Ms. Kobe does not state that she was testifying on behalf of the APWU, another member of Ms. Kobe's company, Dr. Joel Popkin, has testified in support of the APWU in other venues. See e.g., Testimony of Joel Popkin, President, Joel Popkin and Company, before the Subcommittee on the Postal Service, Committee on Government Reform and Oversight, U.S. House of Representatives, 105th Cong., 1st Sess., April 16, 1997 (Serial No. 105-40), pp. 60-87.

majority of the other parties to that case. These arguments were thoroughly refuted in that proceeding³ and were rejected in that proceeding by the Postal Rate Commission which recommended a settlement which actually increased, albeit very slightly, the discounts for 5-digit and 3-digit workshared First-Class mail over the discounts initially requested by the USPS.

The simple fact is that presort and automation workshare discounts save the Postal Service billions of dollars, have been essential to the economic survival of the Postal Service in the past, are key to its viability in the future, and benefit large and small mailers alike.

PRESORT WORKSHARE DISCOUNTS HAVE SAVED THE POSTAL SERVICE TENS OF BILLIONS SINCE THEIR INTRODUCTION IN 1976 AND HAVE RESULTED IN 187,000 FEWER POSTAL SERVICE EMPLOYEES

Presort discounts for letter mail were introduced in 1976. They were the first “workshare” discounts. Since 1976, presort and other workshare discounts have been considered and approved by the PRC in 9 different omnibus postal rate cases. In almost every case the PRC has approved new workshare discounts. Indeed the independent PRC has, following its exhaustive hearings on postal rate cases, frequently recommended larger workshare discounts than those requested by the Postal Service.⁴

Why? Workshare discounts promote economic efficiency because the private sector can perform certain services far more efficiently than the Postal Service can itself. NAPM’s initial comments pointed out that four economists employed by the PRC reported that “in 1999, the total cost savings from all worksharing activities was \$15.3 billion.”⁵ Those same economists

³ See the rebuttal testimonies of James A. Clifton on behalf of the American Bankers Association and the National Association of Presort Mailers and Richard E. Bentley on behalf of the Major Mailers Association in R2001-1. These testimonies demonstrate that the discounts for workshared mail should be considerably greater than the discounts that were agreed to as part of the settlement in R200101--i.e., even with the slight increases in the discounts agreed to in the settlement, the discounts are still well below the costs avoided by the USPS.

⁴ See e.g., PRC Op. R97-1, para. 5028 (“the Commission recommends worksharing discounts somewhat larger than the Service proposes”).

⁵ NAPM Comments at 7.

also estimated that if worksharing were ended the Postal Service would have to add 187,000 employees.⁶ That would be a 22% increase from current levels. The PRC economists further found that that \$12.9 billion of that \$15.3 billion was saved because of presorting and barcoding mail. That's for just one year, 1999. The savings to the Postal Service from presorting and barcoding over the last two and a half decades are in the tens of billions.

THE POSTAL SERVICE DOES NOT LOSE CONTRIBUTION ON EACH LETTER THAT RECEIVES A DISCOUNT; WORKSHARE DISCOUNTS THOUGH LESS (NOT MORE) THAN USPS AVOIDED COSTS DO REFLECT ACTUAL COST DIFFERENCES BETWEEN SINGLE-PIECE AND WORKSHARED MAIL

The APWU asserts that presort discounts are inappropriate because they cause "the Postal Service to lose contribution on each piece that switches to excessively discounted rates."⁷ This is not true. This can be demonstrated in numerous ways. One way is to simply note the Postal Service's Cost and Revenue Analysis Report (CRA) for Fiscal Year 2001. These data are the most recent data on costs and revenues for First-Class Mail single-piece and workshare (presort and automation) letters. They show that the unit marginal cost for a single-piece letter is 24.3 cents while that for a workshare letter is 10.1 cents. Thus, a single-piece letter costs the Postal Service 14.2 cents more than a workshare letter, i.e. on average single-piece letters cost the USPS more than twice as much to process and deliver as workshared First-Class letters.

The CRA also shows that the unit revenue for a single-piece letter is 42.1 cents while the unit revenue for a workshare letter is 28.0 cents. Thus, a single-piece letter yields the Postal Service 14.1 cents more in revenue than a Workshare letter. Using unit revenues as a measure of discount shows that the discount for a workshare letter from the single-piece letter is 14.1 cents, which is actually less than the cost difference of 14.2 cents.

⁶ Ibid.

⁷ APWU Comments at 13.

A more complex analysis of the sort undertaken by Messrs. Clifton and Bentley, for their rebuttal testimonies in R2001-1 would demonstrate (a) that the costs avoided by workshared mail are considerably greater than the current discounts and (b) that First-Class workshared mail is, under current rates, making a disproportionate contribution to covering the non-volume variable, institutional, costs of the USPS than it should and is thereby subsidizing (not being subsidized by) single-piece mail. This is true even though, as the NAPM pointed out in its Comments, the cost savings measured by the USPS for purposes of determining the worksharing discounts do not include many of the costs avoided by the USPS as a result of worksharing. An example of avoided costs that are not included in the calculation of avoided costs are the savings from the Move Update requirements that amount to at least \$1.2 billion per year. Move Update requirements apply only to workshared First-Class mail. Other examples of cost savings that are not included in the current measurement of USPS costs avoided by worksharing are described in the Rebuttal Testimony of Jay Gillotte in R2001-1.

However, the current CRA costs and revenues, adequately demonstrate that *at a minimum* workshare letter discounts are not greater than the cost differences. This is also reflected in the respective contributions of single-piece letters and workshare letters to covering overhead costs. The CRA shows that the unit contribution of a single-piece letter is 17.8 cents while that of a workshare letter is 17.9 cents.

PRESORT WORKSHARING DISCOUNTS DO NOT SUBSIDIZE LARGE BUSINESS MAILERS AT THE EXPENSE OF INDIVIDUALS AND SMALL BUSINESS MAILERS

In a number of places in its Comments the APWU asserts that worksharing discounts unfairly subsidize large mailers at the expense of individuals and small business.⁸ In fact, workshare opportunities offered by the Postal Service are not limited to “major mailers” or “large mailers” or “business mailers.” These discounts are equally available to and are used by

churches, small associations, small businesses, unions (including, presumably, APWU), in-county newspapers, and non-profit groups of every size. These discounts are available on the same basis in all markets from big cities to rural communities. As we said in our initial comments, "The ability of mailers to take advantage of worksharing is more a function of the density of their mail in a given area than volume of their mail. A small church with 600 members all of whom live in the same 3- or 5-digit ZIP Code can take advantage of worksharing discounts more easily than some one mailing 10,000 or even 100,000 pieces of mail nationwide unless that mailer commingles its mail with the mail of others through a presort bureau." ⁹

Finally, it is important to note that the vast majority, over 90%, of the mail is sent by businesses to businesses, businesses to individuals, or individuals to businesses. For most business mailers postage is a cost of doing business that is ultimately borne by the customers. So, reduced rates for workshared mail, especially First-Class workshared mail, benefit the public whose banking fees, credit card fees, insurance costs, utility bills etc. would increase if postage increased. Thus lower postage costs provided by worksharing discounts are passed on to the American public. Thus, contrary to what the APWU contents in the last sentence of the paragraph on page 20 captioned "Unfair Subsidies Exist", the discounts do not place a burden of more than a billion dollars a year on individuals and small businesses. As the NAPM rebuttal witness Gillotte noted in his R2001-1 rebuttal testimony, the lion's share of the discounts are passed through to customers of the presort companies that do the work. Because the "lion's share" of the discounts are passed on these discounts allow businesses to reduce the costs to their consumer of doing business with them and allow other businesses and organizations such as churches, hospitals, unions, etc. to reduce their costs of operation.

⁸ See, for example, the second full sentence on page ii of the APWU Comments.

⁹ NAPM Comments at 9.